

6 April 1998

The Honorable John M. McHugh, Chairman
Subcommittee on the Postal Service
Committee on Government Reform and Oversight
2157 **Rayburn** House **Office** Building
Washington, DC 205 15-6 143

Dear Mr. Chairman:

Siemens ElectroCom appreciates the opportunity to comment in support of H.R. 22, The Postal Reform Act of 1997.

Siemens is a **\$63B** worldwide leader in the electrical and electronics industries, being ranked **4th** (**Fortune 8/97**) in the electrical market. Siemens ElectroCom L.P. is a U.S. company and is part of Siemens USA, which represents nearly 50,000 employees across America in nearly every state of the Union.

We are a leader in supplying postal recognition and barcode sorting automation technology which is utilized by the U.S. Postal Service to lower the cost of handling and sorting the mail. The cost of **handling/sorting** 1000 pieces of mail through automation is approximately \$3 per 1000 pieces compared to manually sorting which is approximately **\$42** per 1000 pieces. Siemens ElectroCom is also a major system integrator and supplier of automation equipment to the U.S. Postal Service, having manufactured and installed over 8,000 automated optical character reading and sorting systems over the past 20 years.

We support and affirm the Chairman's effort to address the need of postal legislation. H.R. 22 and the subsequent Revision shows thoughtful research and insights into the challenges facing an integral infrastructure in America; the U.S. Postal Service. Without the universal service, provided by this great institution, costs to business and consumers would no doubt significantly rise.

We agree with your assessment that this institution is in great peril in the future if underlying issues are not addressed soon. The USPS is losing market share in five of their six competitive product areas. Development and products in electronic communications, such as **email**, electronic banking, direct deposits and electronic commerce pose a great threat to the traditional mail volume of the Postal Service. As I will point out later, mail volume is the life blood of the USPS. H.R. 22 and the associated Revision allows Postal Management to deal more effectively with these realities.

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The H.R. 22 Revision has targeted the highest priority of the USPS which is the necessity to operate more like a business thus enabling accomplishment of its mission of providing universal service at affordable rates. While the bill would assist the USPS in this mission, there are some elements which cause concern.

The need for the USPS to be able to offer competitive services is clear, as is recognized and supported by the Revision. There may be difficulties, however, with restrictions on cost coverage and product withdrawal which could unnecessarily limit **freedom** in pricing, product positioning and retention customary in the commercial sector. As an example, the competitive category should not be burdened with the same proportional institutional costs as the noncompetitive category. We feel both categories should eventually support institutional costs in proportion to their revenue-generating capability.

Under H.R. 22 and the Revision, the Governor's decision authority would be diluted which could impact USPS performance. The Postal Rate Commission would select the index adjustment factor and the transfer of competitive/non-competitive products rather than offering a recommendation to the Board. We believe the Governors should make these and other decisions, with the advice of the PRC, as the former are responsible for Postal Service performance.

The USPS is structured for processing large volumes of mail and if this volume were to decline, necessary revenue would be lost. Negative results could include reduced labor force, the closing of plants and an increase in rates. If rates were to increase this could lead to further volume declines. Maintaining volume is key to low rates and the continuance of the USPS as a service provider. We appreciate how this need was addressed in H.R. 22 prior to the Revision through the section on volume discounts and negotiated service agreements.

In the international arena, the Revision can possibly be detrimental to the growth of this business. Every opportunity should be **afforded** to the USPS to develop and enhance the **swift** interface, hand-off and delivery within another country. This is becoming an increasingly important part of the infrastructure in this global economy. To limit this area by having another agency represent the USPS at inter-governmental organization meetings or to restrict the type of agreements arranged by the USPS would be counter productive.

The U.S. Postal Service should be encouraged to develop the most effective, most efficient and most productive delivery system into foreign countries as possible. It should reflect an extension of the current postal **infrastructure** on which we, as a nation, depend. The advancement of the global society and economy requires this as a necessary service. Other international delivery firms should not have a concern with this so long as they are not restricted in applying these levels of efficiencies.

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Again, we commend the Chairman for analyzing the declining trends in the USPS business segments and for his leadership in addressing the situation before a crisis arrives. Our most important infrastructure must be protected before it gets into a downward spiral of reduced volumes and increased rates. We appreciate the opportunity to comment on this vital legislation. We want to encourage the Chairman and the members of this Subcommittee to continue efforts to ensure the preservation of universal service at affordable rates into the next century.

If there are any questions, please contact me as I would be happy to discuss them with you.

Sincerely,



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Senior Vice President
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